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CONSTELLATION

Oil & Gas Ltd.

1998 Annual Report

CORPORATE PROFILE

Constellation Oil & Gas Ltd. is a Canadian based publicly traded exploration and development company with offices in Calgary and Vancouver.

The Company, incorporated in 1992, owns and operates oil and gas properties in Western Canada and is committed to maintaining and growing this strong asset base through the exploitation of quality acquisitions and the drilling of low to medium risk exploration targets.

The solid foundation provided by the Western Canadian operation will allow the Company to continue to develop international oil and gas opportunities to increase shareholder value commensurate with the world class reserve potential for which we are exploring.

The Company will continue to focus its efforts in the areas of Africa and the Middle East where its seasoned international Board of Directors have demonstrated great success in the past. These highly valued international connections combined with a competent and experienced technical team allow the Company to independently secure and control the development of each of its projects.

The management of Constellation is committed to the pursuit and development of international oil and gas opportunities which bring to our shareholders the rewards associated with the discovery of significant new hydrocarbon reserves on a world scale.

Shares of Constellation Oil & Gas Ltd. are publicly traded on the Alberta Stock Exchange under the symbol CSK.A. At year end 1998, the Company had 32,213,565 shares issued and outstanding.

ANNUAL MEETING

The Annual General Meeting of Shareholders of Constellation Oil & Gas will be held on Wednesday, June 23, 1999 at 2:30 p.m. in the Room Chateau Belair at the Sutton Place Hotel located at 845 Burrard St., Vancouver, British Columbia. Shareholders and members of the public who are interested in receiving more information on the Company are encouraged to attend.

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HIGHLIGHTS - YEAR IN REVIEW

University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2G6
1998 1997

OPERATING

Production

Oil (bbls)	41,068	54,083
Per Day	113	148
Natural Gas (Mcf)	318,307	430,599
Per Day	872	1,180

Proven and Probable Reserves

Oil & Ngls (Mbbbls)	1,027	852
Natural Gas (MMcf)	2,152	3,519

Average Price Received

Oil (\$ per bbl)	15.26	14.24
Natural Gas (\$ per Mcf)	2.00	1.67

FINANCIAL

Gross Revenue	\$1,282,966	\$1,527,610
Cash Flow	115,321	483,215
Per Share	0.00	0.02
Net Income (Loss)	(310,582)	(138,427)
Per Share	(0.01)	(0.01)
Capital Expenditures	1,737,723	1,176,699
Working Capital	716,371	821,779
Acquisitions	1,373,000	nil
Divestitures	1,621,178	1,294,325
Long Term Debt	nil	nil
Net Asset Value	6,544,984	6,350,179
Per Share	\$ 0.20	\$ 0.28
Class A Common Shares Outstanding at Year End	32,213,565	22,357,898

REPORT TO SHAREHOLDERS

We are pleased to report to the shareholders of Constellation Oil & Gas Ltd. the results of our year ending December 31, 1998.

1998 was a year that will be remembered for the lowest oil prices since the seventies and a virtually non-existent equity market for junior producers. The result of this was a year of record low exploration and development drilling activity as many companies, limited by capital constraints, were forced to reduce their anticipated drilling levels while still maintaining their growth objectives. The viable alternatives for growth in the absence of an active drilling program are through corporate mergers and asset acquisitions. The management of Constellation recognized this as an opportune time for the Company to dispose of certain administratively burdensome assets as well as to identify and consummate either a corporate, and/or an asset acquisition to replace some or all of the production it sold. The Company was successful in achieving both of these objectives.

During the year, in four separate divestitures in the Birch-Wavy area of central Alberta, the Company shed approximately 80% of the leases under its administration at the beginning of 1998, and 11 net wellbore abandonment liabilities. Total proceeds from property dispositions for 1998 was \$1,621.2 M which were used in part to fund the year's drilling and asset acquisition activities.

Corporately, the Company was successful in its takeover of Monterey Energy Corp. via a share exchange of 1.1 Constellation share for each share of Monterey. The offer closed on August 24, 1998 with approximately 98% of the Monterey shares issued and outstanding being tendered. The Company subsequently completed the acquisition of 100% of the common shares of Monterey, and wind up of Monterey occurred at year end.

This very busy and successful year which involved the disposition of under-performing assets, the addition of production through the drill bit, the acquisition of quality, long life light oil production at Red Earth and the corporate acquisition of Monterey Energy Corp. have dramatically reshaped Constellation to provide a quality asset base with minimal administrative requirements.



Lutfur Rahman Khan

Although the Company has undergone a significant asset reorganization, it has successfully maintained its reserve value. Year end 1997 saw our total proved plus probable reserves discounted at 15% valued at \$5,232.5 M. At year end 1998, the Company's total proved plus probable reserves discounted at 15% were valued at \$5,905.6 M. As with the rest of the industry, our reserve value suffered as a result of low oil prices in that 83% of the Company's reserves, and 56% of the Company's average production for

1998 is oil. However, Constellation was among the minority of oil and gas companies not required to take a ceiling test writedown in the value of its reserves for 1998. Production remained essentially flat with exit 1998 production at 243 BOE/d versus 1997's exit rate of 248 BOE/d.

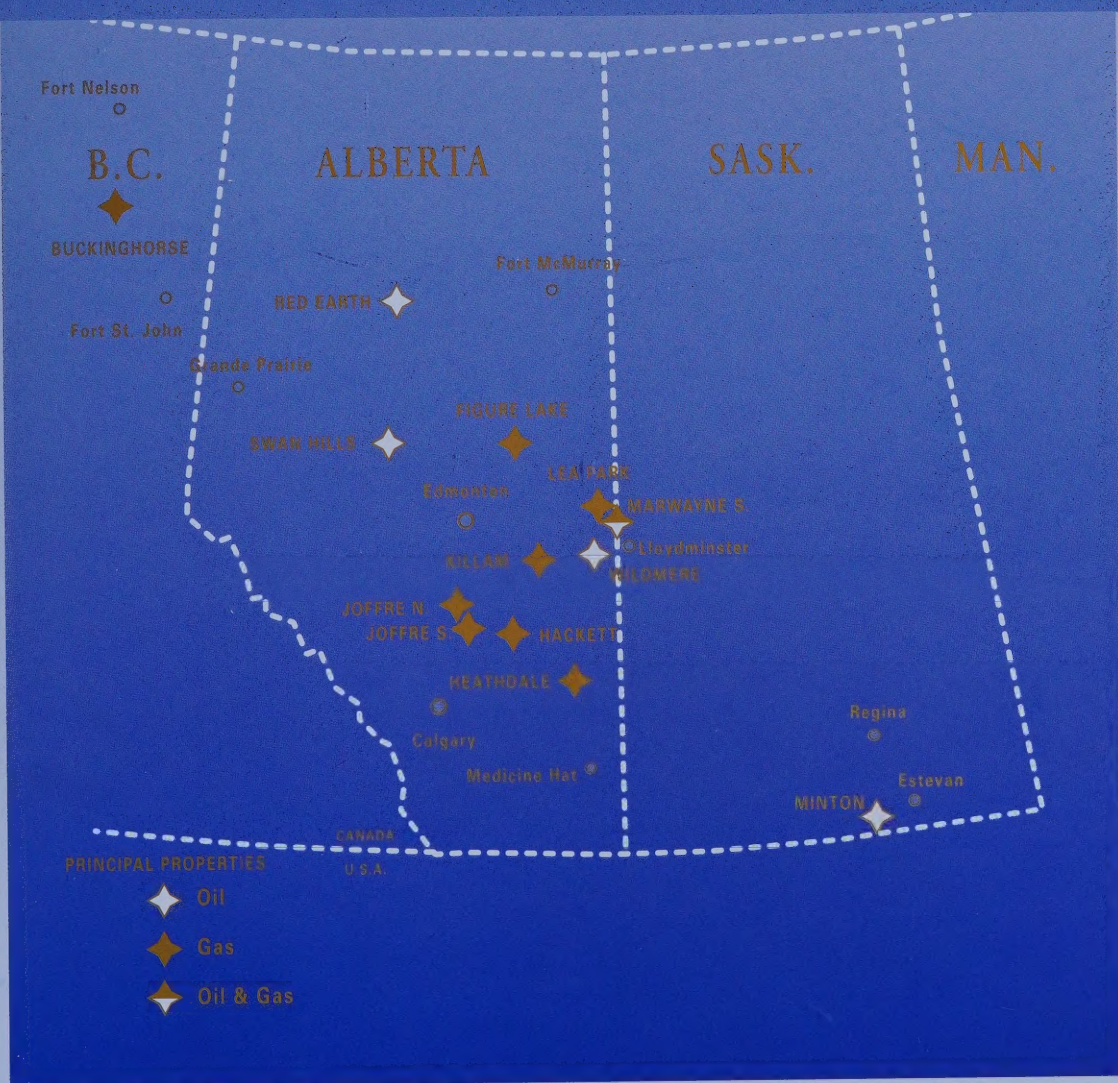
Subject to rigorous selection criteria, management is committed to maintaining and growing this solid asset base in western Canada to provide a foundation for its pursuit and development of world class international oil and gas projects.

International exploration requires patience as well as technical, management and marketing expertise. Companies who enter this arena must be prepared for a long term commitment to their goals with the knowledge that the economic benefit to the shareholders justifies the effort. Throughout 1999 it is the goal of the management of Constellation to develop a portfolio of international projects for the Company in order to minimize the risks associated with relying on the success of a single project.

Constellation has positioned itself to be one of the truly exciting emerging companies approaching the new millennium. With our growing western Canadian operations, our access to significant capital and potentially lucrative international initiatives, I look forward to reporting on substantial increases to our shareholder value in the coming years.

Lutfur Rahman Khan
Chairman, President & CEO
April 30, 1999

EXPLORATION AND DEVELOPMENT

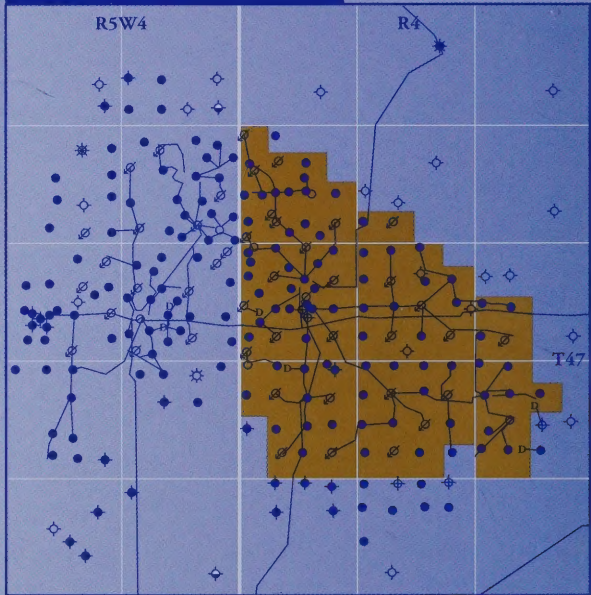


The focus of the Company's exploration, development and acquisition program has been to maintain and grow a quality Western Canadian production base to provide a platform from which to continue developing its foreign oil and gas opportunities. Our strategy has been, and will continue to be, to develop a portfolio of properties which is balanced between gas and oil and has an above average reserve life index with low operating costs. While the Company is still in the emergent stage, management is risk averse and looks to supplement its low to medium risk drilling prospects with under-valued asset acquisitions.

Wildmere, Alberta

The Company owns a 2.7934% working interest in the Wildmere Lloydminster "A" Pool Unit No. 1 which contains 11,612 Mbbls gross proven producing oil reserves. A recent reservoir simulation conducted by the operator determined that an additional 5% to 11% of the original oil in place could be recovered by infill drilling on the perimeters of the inverted 9-spot waterflood patterns. During 1998, the unit drilled 16 infill wells resulting in the net production to the Company increasing from approximately 73 bopd to the current rate of 83 bopd. Additional infill drilling is planned by the unit for 1999.

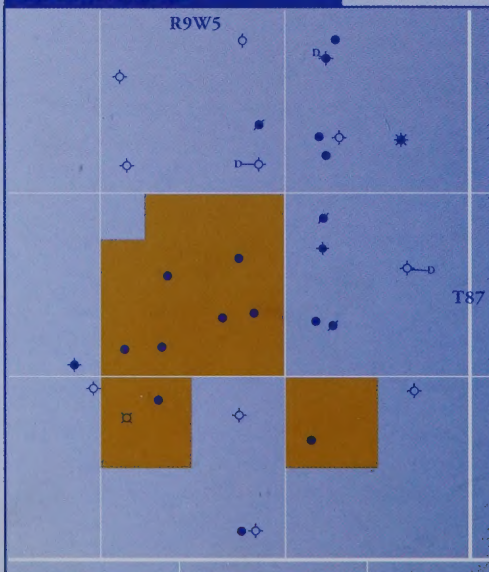
Wildmere, Alberta



WELL SYMBOLS

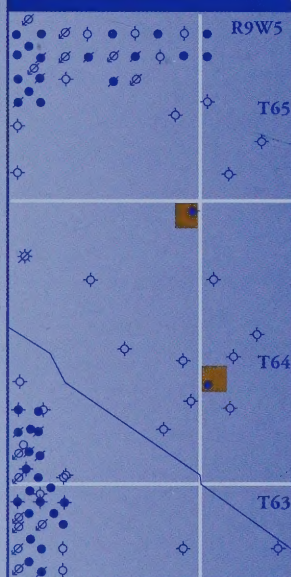
- Location
- Oil
- ☆ Gas
- ◇ Abandoned
- ⊠ Suspended
- ⊗ Water Injection
- D Directional

Red Earth, Alberta



Red Earth, Alberta

In northern Alberta, the Company purchased 50% of a sliding scale gross overriding royalty in eight producing Slave Point and Granite Wash oilwells, which equates to approximately 28 bopd of light gravity, high netback oil production.

Swan Hills, Alberta*Swan Hills, Alberta*

Constellation owns a 100% working interest in two Swan Hills oilwells and 320 acres of land in the Swan Hills area of Northern Alberta. The 16-36-64-10W5 well is currently producing at 13 bopd and has remaining recoverable reserves of 78 Mbbls. The 4-18-64-9W5M well which is currently shut-in due to parted rods and a hole in the casing, has remaining recoverable reserves of 159 Mbbls. A workover will commence in the second quarter of 1999 to restore production from the well, which is tied in to a gathering system. Combined rates for the two wells is expected to be approximately 35 bopd of light gravity high netback oil production.

Marwayne South, Alberta

The Company has a 70% working interest in 640 acres of land in the Marwayne area of east central Alberta. The property was producing 50 bopd net to the Company when it was suspended in December of 1997 due to low oil prices. Subsequent to the 1998 year end, production was resumed on the 12-28 well and work-overs were performed on the 13-28 and 14-28 wells resulting in production from the property resuming at 63 bopd net to the Company. In addition to its heavy oil production, the Company has an 8.4% gross overriding royalty on a gaswell at 2-28 which is currently producing at 1,000 Mcf/d.

Marwayne South, Alberta

OPERATIONS & PRODUCTION

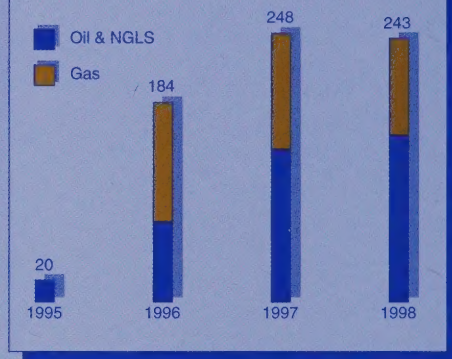
Drilling

During 1998, Constellation participated in the drilling of 23 gross wells (1 net well) resulting in 18 oilwells, 3 gaswells, 1 suspended well and 1 water injection well for an overall success rate of 75% on a net well basis. The Company exited the year producing 154 bopd and 892 Mcf/d of gas for combined production of 243 BOE/d.

The Company's finding cost for reserves added as a result of drilling (which includes costs associated with drilling, completion, testing, and seismic) was \$2.31/BOE. Net reserves attributed to drilling operations were 145.7 MBOE, 80% of which were oil reserves at Wildmere.

Production

(Year End Exit Rates) BOE/D



Acquisitions

During the reporting period, Constellation concluded one corporate and three asset acquisitions totaling \$2,133.0 M. The corporate acquisition of Monterey Energy Corp. added 366.1 MBOE of proven and probable reserves before revisions at a cost to the Company of \$3.75/BOE based on net book value paid, and \$5.82/BOE on a net asset value basis. Asset acquisitions totaled \$760.0M and added 217.9 Mbbls of proven and probable oil reserves before revisions at an average cost of \$3.49/bbl. The average total cost of reserves added through acquisition based on net asset value was \$4.53/BOE.

Divestitures

Constellation concluded four separate divestitures during 1998 totaling 2,279.0 MMcf gas reserves, and 27.0 MSTB oil reserves, for a total of 255.0 MBOE at an average selling price of \$6.36/BOE.

RESERVES

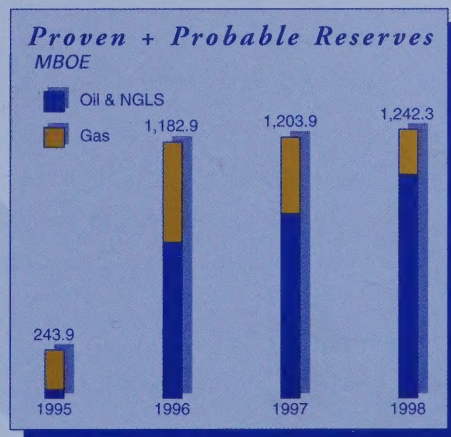
The table below at left presents the Company's proven and probable reserves before royalties as evaluated by the independent engineering firm of Chapman Petroleum Engineering Ltd., as at January 1, 1999. The adjacent table at right presents the discounted present value of those reserves. Revisions of the reserves at Buckinghorse, Joffre, Killam and Wildmere offset the reserve additions resulting from the year's drilling and acquisition program resulting in a 3.1% increase in proven plus probable reserves from the previous year. Of note is that 81% of the Company's reserves are proven.

<i>Reserves</i>			
	Proven	Probable	Total
Gas (MMcf)	1,566.5	585.5	2,152.0
Oil (Mbbbls)	837.5	175.8	1,013.3
NGL's (Mbbbls)	13.8	0.0	13.8
Total (MBOE)	1,008.0	234.4	1,242.3

<i>Present Value of Reserves</i>			
<i>\$Thousands</i>			
Present Value, before tax,			
discounted at			
	10%	15%	
Proven	7,183.5	5,475.5	
Probable	843.7	430.1	
Total	8,027.2	5,905.6	
Note: Values include ARTC			

The following oil and natural gas price estimate was used by Chapman Petroleum Engineering Ltd. in calculating the future net revenue to be generated by the Company's reserves at January 1, 1999.

<i>Pricing</i>		
<i>(Effective January 1, 1999)</i>		
Crude Oil	Gas Reference	Price
Edm. Light Sweet		
\$Cdn./Bbl	\$Cdn./MMBTU	
1999	22.82	2.50
2000	25.05	2.50
2001	27.27	2.50
2002	29.49	2.50
2003	31.34	2.63
2004	32.91	2.76
2005	34.55	2.89
2006	36.28	3.04
2007	38.09	3.19
2008	40.00	3.35
2009	42.00	3.52



MANAGEMENT'S DISCUSSION AND ANALYSIS

Production and Revenue

Revenues and production expenses for 1998 include those from assets acquired from Monterey Energy Corp. on August 24, 1998. Gross Revenues were \$1,282,966, a decrease of 16% over 1997. This decrease was, in part, due to the divestitures in 1998 of certain properties. Also, all Company operated heavy oil was shut-in in January of 1998. Revenues were split 56.4% from oil sales and 43.6% from the sale of natural gas. Average daily production was 113 bopd and 872 Mcf/d as compared to 148 bopd and 1,180 Mcf/d in the prior year. The average oil price for 1998 was up 7% to \$15.26 per barrel compared to \$14.24 received for 1997. The average natural gas price increased 20% over 1997 from \$1.67 per Mcf to \$2.00 per Mcf.

Royalties

Royalties, net of Alberta Royalty Tax Credit, decreased 18% to \$146,797, attributable to lesser sales volumes, owing to divestitures and the shut-in of heavy oil production. The effective royalty rate remained unchanged between 1998 and 1997 at 11% of sales.

Operating Costs

Operating costs totaled \$422,413 for the year, which equates to \$5.79/BOE, down 3% on a per unit basis from 1997.

General and Administrative

Total general and administrative expenses, net of recoveries, increased from \$329,087 in 1997 to \$642,813. This increase was principally due to the reduction in overhead recoveries associated with working interest partners together with one time expenditures related to acquisition and divestiture activities.

Interest

The 1998 interest expense of \$10,047, was reduced from that of \$16,401 in 1997, owing to reduced average outstanding bank borrowing balances.

Depletion, Depreciation and Site Restoration

Total depletion, depreciation and site provision was \$425,903 as compared with \$621,642 in 1997. This decrease was due to an increase in the depletable reserve base, together with production decreases associated with property dispositions and the shutting-in of heavy oil production due to low prices.

Capital Expenditures

Total capital expenditures for the year were \$1,737.7 M. Of this amount, \$675.0 M was spent on an ORR acquisition in the Red Earth area, with most of the balance being spent on drilling, completing and equipping 23 (1.0 net) wells, pipelines and facilities as well as workovers and abandonments. Total divestitures amounted to \$1,621.2 M.

Financial Position

Constellation currently has undrawn lines of credit of 1,200.0 M and a positive working capital of \$716.4 M.

Business Risks

The oil and gas industry is subject to numerous risks, including commodity price, interest rate and exchange rate fluctuations as well as environmental concerns and the success of future drilling. Constellation attempts to reduce and manage those risks, which are controllable.

Environmental and safety concerns are addressed through a corporate contingency plan and by continued emphasis on complying with environmental legislation.

Year 2000 Compliance

The Company has been assessing its exposure to potential problems arising from the Year 2000 issues and is in the process of establishing a plan to alleviate such problems. Constellation does not believe that it has any material Year 2000 issues and that it has relatively low exposure to any problems that may arise. Anticipated expenditures to handle these issues are not expected to be material.

MANAGEMENT'S REPORT

AUDITORS' REPORT

To the Shareholders of Constellation Oil & Gas Ltd.:

The information contained in this Annual Report and the accompanying financial statements and other financial information as well as the financial reporting process that produces such statements is the responsibility of Management.

Management maintains a system of internal accounting controls designed to reasonably assure that transactions are appropriately authorized, that relevant and reliable financial information is produced in a timely manner, and that the assets of the Corporation are adequately safeguarded.

The Management of the Company has the responsibility for the integrity and objectivity of the information contained in this annual report, and to ensure that the operating information presented throughout this annual report is consistent with that which is shown in the financial statements, which are prepared by Management in accordance with generally accepted accounting principles.

The external auditors, appointed by the shareholders of the Company have examined the financial statements in order to provide an independent view as to the fairness of reported operating results and financial condition.

The Audit Committee of the Board of Directors which consists of non-management directors has reviewed the financial statements including notes thereto, with management and has reported to the Board of Directors.

The financial statements, upon the recommendation of the Audit Committee, have been approved by the Board of Directors.



Lutfur Rahman Khan
Chairman, President & CEO

To the Shareholders of Constellation Oil & Gas Ltd.:

We have audited the consolidated balance sheets of **Constellation Oil & Gas Ltd.** as at December 31, 1998 and 1997 and the consolidated statements of loss and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Deloitte & Touche LLP
Chartered Accountants

Calgary, Alberta
March 12, 1999

CONSOLIDATED BALANCE SHEET

As at December 31

	1998	1997
	\$	\$
ASSETS		
CURRENT		
Cash and short-term investments	429,649	174,443
Accounts receivable	611,389	1,159,731
Prepaid expenses and deposits	57,074	147,176
	1,098,112	1,481,350
Property and equipment (Note 3)	5,032,850	3,953,070
	6,130,962	5,434,420
LIABILITIES		
CURRENT		
Operating loan (Note 4)	75,000	-
Accounts payable and accrued liabilities	306,741	659,571
	381,741	659,571
Site restoration and abandonment provision	100,187	84,050
	481,928	743,621
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	6,233,434	4,964,617
Deficit	(584,400)	(273,818)
	5,649,034	4,690,799
	6,130,962	5,434,420

APPROVED BY THE BOARD



Clifford M. James
Director



Dr. Asif A. Syed
Director

CONSOLIDATED STATEMENT OF LOSSES AND DEFICIT

<i>For the Years Ended December 31</i>		1998	1997
		\$	\$
REVENUE			
Petroleum and natural gas revenues	1,282,966	1,527,610	
Royalties, net of ARTC	(146,797)	(179,864)	
	1,136,169	1,347,746	
Other income	54,425	7,046	
	1,190,594	1,354,792	
EXPENSES			
Operating costs	422,413	582,008	
General and administrative	642,813	273,168	
Interest	10,047	16,401	
Depletion and depreciation	409,767	553,550	
Site restoration	16,136	68,092	
	1,501,176	1,493,219	
NET LOSS	(310,582)	(138,427)	
DEFICIT, BEGINNING OF YEAR	(273,818)	(135,391)	
DEFICIT, END OF YEAR	(584,400)	(273,818)	

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31

	1998	1997
	\$	\$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net loss	(310,582)	(138,427)
Items not affecting cash		
Depletion and depreciation	409,767	553,550
Site restoration	16,136	68,092
Cash flow from operations	115,321	483,215
Changes in non-cash operating working capital items	285,613	(319,318)
	400,934	163,897
FINANCING		
Issue of shares for acquisition (Note 2)	1,227,417	—
Proceeds from exercise of stock options	41,400	—
Increase in operating loan	75,000	(25,000)
	1,343,817	(25,000)
INVESTING		
Acquisition, net of non-cash working capital (Note 2)	(1,373,000)	—
Additions to property and equipment	(1,737,723)	(1,176,699)
Proceeds on sale of property and equipment	1,621,178	1,294,325
	(1,489,545)	117,626
NET CASH OUTFLOW	255,206	256,523
CASH POSITION BEGINNING OF YEAR	174,443	(82,080)
CASH POSITION END OF YEAR	429,649	174,443

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1998 and 1997

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and practices.

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Monterey Energy Corp. ("Monterey").

Property and Equipment

The Company follows the full cost method of accounting for oil and gas operations as prescribed by the Canadian Institute of Chartered Accountants. All costs related to exploration and development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling productive and non-productive wells and overhead charges related directly to acquisition, exploration and development activities.

Costs of acquiring and evaluating unproven properties are excluded initially from costs subject to depletion. These unproved properties are assessed regularly to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion. Proceeds from disposal of properties will normally be applied as a reduction of the cost of the remaining assets unless the disposal represents a significant disposition of reserves, in which case a gain or loss will be recorded.

The net carrying value of the Company's petroleum and natural gas properties is limited to an ultimate recoverable amount. This is the aggregate of future net revenues from estimated proved reserves and the costs of unproved properties, net of impairment allowances, less future general and administrative costs, financing costs, site restoration and abandonment costs, and income taxes. Future net revenues are estimated using year-end prices and all costs are assumed to be constant.

Capitalized costs, including the costs of production equipment, are depleted and depreciated on the unit of production method based on the estimated proven reserves before royalties, determined by independent petroleum engineers. Oil and gas reserves and production are converted into equivalent units based upon estimated relative pricing content at a ratio of ten thousand cubic feet of gas to one barrel of oil.

Site Restoration and Abandonment

The estimated cost for future site restoration and abandonment is provided on the unit of production method based on the estimated remaining proven reserves and is included in site restoration expense. Estimates are prepared by the Company's engineers based on current costs and regulations in effect at the balance sheet date. Actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

Flow-through Shares

The Company has issued flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of the flow-through share agreements, the tax deductions associated with the expenditures will be renounced to the subscribers. Accordingly, share capital will be reduced and deferred income taxes will be recorded equal to the estimated amount of future income taxes payable by the Company as a result of the renunciations.

Joint Venture Accounting

A portion of the Company's exploration and production activities is conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

Financial Instruments

The carrying values of accounts receivable, accounts payable and operating loan approximate the fair value of these financial instruments due to the short term maturity of these instruments.

2. ACQUISITION

Effective August 24, 1998 the Company acquired all of the issued and outstanding common shares of Monterey for consideration of \$1,227,417 comprised of 9,441,667 of the Company's common shares which had a market value of \$0.13 per common share. Monterey was 45.86% owned by two directors and two officers of the Company. The acquisition has been accounted for by the purchase method. Details of the assets acquired are as follows:

	\$
Petroleum and natural gas properties	1,373,000
Working capital deficit	(145,583)
	1,227,417

3. PROPERTY AND EQUIPMENT

	1998	1997
	\$	\$
Petroleum and natural gas properties	6,117,498	4,657,354
Furniture and equipment	166,566	121,346
	6,284,064	4,778,701
Less accumulated depletion and depreciation	1,251,214	825,631
	5,032,850	3,953,070

4. OPERATING LOAN

During the year, the Company secured a revolving line of credit to a maximum of \$1,200,000. The operating loan bears interest at prime plus 1%. The operating loan is secured by receivables, a demand debenture for a minimum of \$5,000,000 and a letter of undertaking not to encumber or dispose of assets, other than in the normal course of business, and to provide security under section 426 of the Bank Act and/or assign natural gas contracts. At December 31, 1998, the balance outstanding with respect to this facility was \$75,000 (1997 - nil).

5. DEFERRED INCOME TAXES

The provision for deferred income taxes differs from the result, which would be obtained by applying the combined Canadian federal and provincial statutory income tax rates to loss before taxes. This difference results from the following:

	1998	1997
	\$	\$
Loss before income taxes	(310,582)	(138,427)
Statutory income tax rate	44.6%	44.6%
Expected income tax recovery	(138,520)	(61,767)
Effect on income taxes of:		
Non-deductible crown royalties, net of Alberta Royalty Tax Credit	50,526	35,536
Resource allowance	(13,024)	(30,765)
Share issue costs	(8,234)	(8,445)
Non tax base depletion	17,610	19,351
Tax benefit of losses not recognized	91,642	46,101
	-	-

The Company has \$1.1 million in non-capital loss carry-forwards, which have not been recognized in the financial statements but are available to reduce future income taxes.

6. SHARE CAPITAL

Authorized

- Unlimited number of Class A common voting shares
- Unlimited number of non-voting Class B common non-voting shares
- Unlimited number of Class A Preferred Shares voting 7% non-cumulative redeemable

Issued

	Number of	Amount
	Shares	\$
Class A common shares		
Balance, December 31, 1996	22,357,898	5,240,254
Tax effect of 1996 flow-through shares	-	(275,637)
Balance, December 31, 1997	22,357,898	4,964,617
Exercise of stock options	414,000	41,400
Acquisition of Monterey	9,441,667	1,227,417
Balance, December 31, 1998	32,213,565	6,233,434

Escrowed shares

In conjunction with the Monterey acquisition, 4,840,000 shares are held in escrow and are eligible to be released in equal amounts in November of 1998, 1999, and 2000.

Options

At December 31, 1998, the Company had 2,244,166 (1997 - 1,434,000) employee and director stock options outstanding exercisable at \$0.10 to \$0.35 per share which expire at varying dates to 2003. Agent options outstanding are 422,766 exercisable at \$0.15 - 0.30 per share, which expire at varying dates in 1999.

Flow-through Common Shares

At December 31 1997, all flow-through renouncement commitments were met on flow through shares issued in 1996.

7. RELATED PARTY TRANSACTIONS

During the year, the Company recovered general and administrative expenses totaling \$466,837 (1997-\$510,190) from a corporation which has a director in common with the Company. At December 31, 1998, accounts receivable include balances owed from companies which have a director in common with the Company of \$50,211 (1997 - \$434,025).

8. LOSS AND CASH FLOW PER SHARE

	1998	1997
	\$	\$
Loss per share -		
basic and fully diluted	(0.01)	(0.01)
Cash flow per share -		
basic and fully diluted	0.01	0.02
Weighted average number of common shares		
Basic	25,990,688	22,357,898
Fully Diluted	27,455,215	23,791,898

9. COMMITMENTS

The Company has committed to a lease for premises expiring in August of 2001. The following minimum payments are required on the lease:

	\$
1999	55,400
2000	55,400
2001	36,933

10. SEGMENTED INFORMATION

The Company operated in only one business segment as its operating activities are related to exploration, development and production of petroleum and natural gas in Canada.

The Company sells its petroleum and natural gas products to various purchasers. For 1998, two large integrated purchasers accounted for 24% and 10% (1997 - 51% and nil) of the Company's gross revenues.

11. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

CORPORATE INFORMATION

Officers and Key Personnel

Lutfur Rahman Khan
*Chairman, President and
Chief Executive Officer*

Donald G. Campbell
*Sr. Vice President
Engineering & Production and
Chief Operating Officer*

George P. Bowley
*Sr. Vice President
Exploration & Development*

Timothy S. Hoar
*Corporate Secretary &
General Counsel*

Dr. Waseem Rahman
*Sr. Vice President
Administration*

Zubair Hashmi
*Sr. Vice President
Corporate Development*

Directors

Lutfur Rahman Khan⁽²⁾

Dr. Asif Ali Syed⁽¹⁾⁽²⁾

Clifford M. James⁽¹⁾

Jan R. Horesji⁽²⁾

Dr. Waseem Rahman⁽¹⁾

Donald G. Campbell

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

Executive Office

502 - 815 Hornby Street
Vancouver, BC V6Z 2E6

Tel: (604) 684-7372

Fax: (604) 684-2407

Operations Office

Ernst & Young House
920, 707-7th Avenue S.W.
Calgary, AB T2P 0Z2

Tel: (403) 263-2472

Fax: (403) 264-7035

Registrar and Transfer Agent

Montreal Trust Company of Canada
Calgary, AB

Banker

The Bank of Nova Scotia
Calgary, AB

Auditors

Deloitte & Touche LLP
Calgary, AB

Independent Engineers

Chapman Petroleum Engineering Ltd.
Calgary, AB

Legal Counsel

ProVenture Law
Calgary, AB

Stock Exchange Listing

Alberta Stock Exchange
Symbol "CSK.A"

ABBREVIATIONS

Mthousands
Mcfthousands of cubic feet
MMmillions
MMcfmillions of cubic feet
bblbarrel
Nglsnatural gas liquids

bbls/dbarrels per day
ARTCAlberta Royalty Tax Credit
bopdbarrels of oil per day
BOEbarrel of oil equivalent
(1 bbl = 10 Mcf)

CONSTELLATION
Oil & Gas Ltd.

Executive Office

502 - 815 Hornby Street
Vancouver, BC V6Z 2E6

Operations Office

920, 707- 7th Avenue S.W.
Calgary, AB T2P 0Z2